# COUNCIL ON PRICES, PRODUCTIVITY AND INCOMES

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# COUNCIL ON PRICES, PRODUCTIVITY AND INCOMES

*Chairman* LORD HEYWORTH

*Members* SIR HAROLD EMMERSON

PROFESSOR E. H. PHELPS BROWN

*Secretary* M. J. STEWART

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Chapter I

# INTRODUCTION

1. The Council was reconstituted in 1960 without any change in the following terms of reference:

"Having regard to the desirability of full employment and increasing standards of life based on expanding production and reasonable stability of prices, to keep under review changes in prices, productivity and the level of incomes (including wages, salaries and profits) and to report thereon from time to time."

2. As a first step we studied the experience of other countries. The result was outlined in the statement we issued in January, 1961—

"Following its reconstitution in October, 1960, the Council has studied the movement of prices, productivity and incomes in this country over the post war period.

"The Council was appointed to play a part in the study and advancement of knowledge of the problem of achieving stable prices without jeopardising full employment or a rising standard of living. The problem has not yet been solved by any of the advanced industrial democracies. Their experience has generally been that either money incomes have risen faster than output, so that prices have risen, or else restraints have been applied that have checked rising prices but have also set back employment and output. This has been so whether countries have adjusted pay through voluntary bargaining or by compulsory arbitration and whether or not bargaining has been co-ordinated; and generally profits have risen as much as wages and salaries. It therefore seems unlikely that the responsibility for rising prices lies with any one section of the community or any one kind of institution. But by the same token there is a common interest in finding a better way forward.

"The Council therefore thinks that it can most usefully contribute to a fuller understanding of the problem, and to its solution, by studying the lessons of experience both at home and abroad, and bringing out some of the factors that affect the course of prices, productivity and incomes. The Council also intends to consult representative bodies on the adequacy of the information on which judgments and decisions are reached.

"In general, the Council seeks to encourage the discussion that is constantly in progress on how a free country can maintain full employment, economic growth and rising standards of life and, at the same time, avoid inflation. It welcomes suggestions and will seek the help of those up and down the country who have given thought to these issues."

3. As the statement indicates, we considered the adequacy of the information on which judgments and decisions are reached on matters which affect

prices, productivity and incomes. The Committee on the Working of the Monetary System, under the chairmanship of Lord Radcliffe, reviewed the range of financial statistics available in this country, and made a number of recommendations for their improvement. We looked at the more general economic statistics, in particular such questions as whether available information is sufficiently comprehensive and up-to-date; whether there are gaps to be filled, or, alternatively, overlaps or inconsistencies to be ironed out; and, in general, whether any improvements could be made either in the data or the various commentaries which are published by both official and unofficial bodies. We had the advantage of receiving the views of the organisations and individuals who are listed, together with those referred to in paragraph 4, in the Appendix. They raised a number of points at which they thought it important to improve our present statistics. Much of the discussion was of a technical nature, and we have not covered it in this Report, but have transmitted the views we received to the appropriate Government departments. Our own general conclusions are contained in paragraphs 41 to 43.

4. The statement we issued in January, 1961, contained an open invitation to submit views to the Council and we received comments from a number of organisations and from individuals. We also had discussions with groups of economists. They were drawn from a wide area but for convenience meetings have been held in Cambridge, Glasgow, London, Manchester and Oxford. We have also had the advantage of drawing on material assembled by the Joint Economic Committee of the U.S. Congress, and on the O.E.E.C. Report on the Problem of Rising Prices. The help we received from all these sources has been of great value, and we wish especially to acknowledge the contribution made by those who have given their thought and time to provide information and constructive proposals. The opinions expressed in this Report are, of course, entirely our own.

5. We have tried to present the issues in the simplest possible terms. We have also felt it our duty to bring within our review the course of contemporary thought on the subjects within our terms of reference and in doing so to make our own comments. We study in Chapter II the lessons of recent experience. In Chapter III we attempt to restate the problem as a common responsibility of all sections of the community. In Chapter IV we indicate possible lines of policy in the light of the discussions we have held and the suggestions made to us.

6. As we look back over the ground we have covered, some features stand out. First and foremost is that the country has not done as well as it might: the standard of living has gone up, but it could and should have gone up more. Two weaknesses that have held it back appear by contrast with other countries—production has not risen enough; exports have not risen enough. The second weakness has been a cause of the first, for it has led to recurrent troubles with the balance of payments, and these troubles have obliged the government to impose restraints that have held production back. But both weaknesses have had a common cause in inflation, that is, in the persistent tendency of pay and profits to rise faster than production. Inflation has weakened the forces that normally make for increased efficiency. By making the home market easy to sell in and by raising costs it has weakened the will and ability to export. One outcome of inflation is the rise of prices, but

stopping this rise is not the main end of policy. The main end is to achieve the rise in the standard of living that is within our powers. Over the next ten years investment and technical progress should make it possible to raise the standard of living by as much as a third. But the country will not do as well as this if inflation goes on.

7. It is going on now. The stability of prices in 1958 and 1959 proves to have been due to influences that were only transient. Now costs have resumed their rise and prices are rising with them. The balance of payments last year ran a deficit of the order of a third of our international currency reserves.

8. How can inflation be stopped? It has sometimes been due to the pull of excess demand, but experience has shown that removing excess demand is not of itself enough. We have been brought to the conclusion that inflation has another cause, an upward push as rates of pay are raised and profit margins are maintained by raising prices. This " cost push " comes into play through a myriad decisions on wages, salaries and prices. The need is to ensure that these decisions do not raise money incomes faster than production. One way of doing this is to restrict demand so as to harden the climate in which the decisions are made, but we do not think this will work unless the restriction goes so far that the remedy is worse than the disease. The alternative can only be to find ways of adjusting the rise of money incomes at the points where the decisions are taken. We believe that this is necessary for the success of any policy for full employment and economic growth without inflation.

9. Policy must also work directly for higher productivity, both as a reinforcement of the other measures and as the main end in itself. No new measures will stop inflation so long as demand is excessive, and fiscal and monetary weapons remain necessary to check the rise of demand from time to time—or to raise demand if it flags. We therefore see policy as directed along three lines—

raising productivity;
adjusting the rise of demand;
adjusting the rise of money incomes—both pay and profits.

We have found no sovereign remedy that will simultaneously ensure full employment, a rising standard of living and stable prices. We do not think the problem can be solved by periodical appeals for restraint, or by a detailed system of state control of prices and incomes. Nor do we wish to see inflation prevented by men or machines being kept idle. But we believe that an effective stategy can be developed by bringing pressure to bear in the same direction at a number of points. We have set these out in Chapter IV. In the long run we think that in a free country, where the decisions which affect pay and profits are taken at many different levels, right decisions depend on a public opinion that is alive to the issues involved. Much needs to be done to bring this about.

## CHAPTER II

# LESSONS OF EXPERIENCE

10. Two features of the United Kingdom's record in recent years stand out as remarkably good—output and productivity both bounded upwards in 1959 and the early part of 1960; and meanwhile, indeed for the three years from the end of 1957 onwards, retail prices rose very little. The movements of output and productivity can be measured for the economy as a whole and for industry by itself. Output in the whole economy comprises every sort of material product and the provision of power, transport, and all services, commercial and professional, public and private; industry comprises only manufacturing, mining, construction, and gas, electricity and water. In fifteen months, from the beginning of 1959 until the spring of 1960, output rose by not less than 8 per cent in the whole economy, and by as much as 12 per cent in industry. At the same time the labour force did rise somewhat, but much less—in the whole economy by 1½ per cent, within industry alone by 2½ per cent. So output per head, that is, productivity, went up too, and sharply: by April, 1960, the average man-week's work was producing 6 or 7 per cent more in the whole economy than only fifteen months before, and within industry as much as 9 per cent more. These are rates of growth for which, so long as they lasted, it is hard to find a counterpart in recent years. But the stability of prices was also something new. Over the ten years ending with 1957 retail prices had been rising at the rate of nearly 5 per cent a year on the average, but since the end of 1957 it has taken them nearly 3½ years to rise by another 5 per cent.

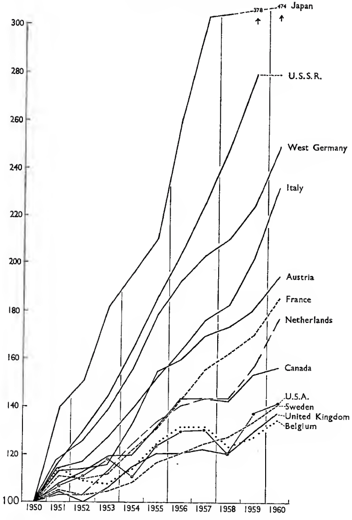
11. Do these achievements mark an end to slowly rising output and quickly rising prices? Unhappily there are compelling reasons to answer no. The achievements were great gains in themselves, certainly, and showed what is possible, but they arose out of passing circumstances. The rise in output and productivity in 1959-60 came about mainly through the taking up of the slack that had formed during the two or three years before; when the growth of the British economy is followed through a longer run of recent years it remains, by international standards, disappointingly slow. One restraint on it has been the recurrent weakness of the balance of payments, and this has been largely due to the failure of British exports to rise enough. The causes of the stability of prices have been temporary, but the pressure towards higher costs have been persistent, and recently they have become stronger. We will examine these reasons in turn.

12. Fig. 1 enables us to compare the rise of industrial production since 1950 in a number of countries. It shows that the greatest increases have been made by the countries whose industrial sectors were still relatively small in 1950, or had been badly set back by the war. Among the countries of Fig. 1 that had a large and intact industrial sector in 1950—the United States,

Fig. 1

# INDUSTRIAL PRODUCTION

Adjusted to 1950 = 100

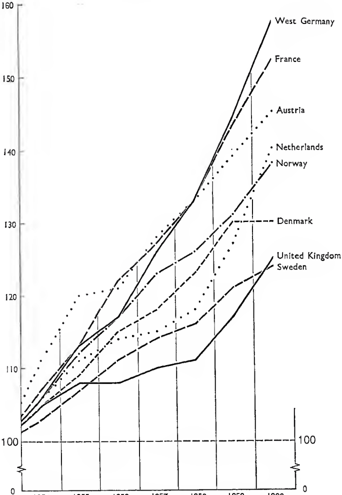



Source: Nat. Inst. Economic Review, May 1961, Table 20, page 53.

Fig. 2

# PRODUCTIVITY* IN INDUSTRY

1953 = 100

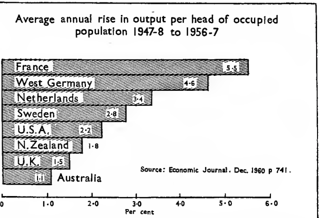



* For Austria, Netherlands, Norway and Sweden, the figures relate to output per worker, in the other countries, to output per man-hour.

Source: U.N. Economic Survey of Europe in 1960; Chapter I, Chart 6.

Sweden, Belgium—the United Kingdom has held its own. But it has done so only by drawing more manpower into industry, to offset a lower rise in output per man. Fig. 2 compares the rise of productivity in industry in eight European countries since 1953. This sort of comparison cannot be close but it is still clear that the United Kingdom's progress has been among the slowest. In the last seven years the United Kingdom has raised output per man-hour in industry by not more than a quarter, while France and Western Germany have raised it by about a half. The United Kingdom has therefore had less manpower available with which to raise other kinds of output, and the whole national product has risen relatively slowly. A recent study provides estimates by a common method of the rate at which total output per head of the whole occupied population has been rising in a number of countries over a recent nine year span: these are shown in Fig. 3. Evidently the United Kingdom has not been able to raise its standard of living as rapidly, say, as the Netherlands, or France.

Fig. 3




13. What has been holding the United Kingdom back? We have found no way of analysing the causes so as to establish them objectively, and they remain a matter of controversy. But there are some considerations on which we have found a wide agreement. One of these is that the sheer quantity of British investment has been too small. The authors of a recent O.E.E.C. study state: " It would seem that, although output per worker in the United States is rather more than 2½ times that of the United Kingdom, output per unit of capital employed may be about the same in the two countries. Thus it follows that capital available per worker in the United States may also be about 2½ times that in the United Kingdom."[1] But the rate of British investment,

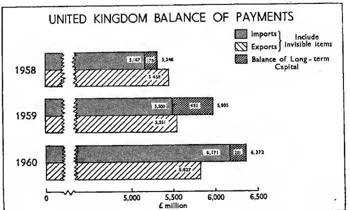
[1]A Comparison of National Output and Productivity of the United Kingdom and the United States, by Deborah Paige and Gottfried Bombach, p.69. Joint Study by the Organization for European Economic Co-operation and the Department of Applied Economics, University of Cambridge. (OEEC, Paris, 1959).

though it has risen recently, has been low by international standards: to take one instance, the share of output applied to investment in 1950-58 was over 21 per cent in the Netherlands, nearly 20 per cent in Sweden, but only 14 per cent in the United Kingdom. One reason for this may be that any rate of investment, high or low, once adopted, tends to perpetuate itself. A low rate may do this in two ways—the expected rise of output for which extra capacity is prepared will be based on the low rate already experienced; and caution in the plans of any one industry will be required by the slow current rate of expansion of the others. At the end of the war the United Kingdom had less resources to devote to any purpose at home because of the urgent need to raise exports. Of what was retained and invested a large part had to go to housing and public services. For some years, moreover, savings were small. The slow pace of investment necessarily set then persisted after it ceased to be necessary. Besides this, the recurrent troubles of the balance of payments have had to be dealt with by ad hoc measures of " stop and go," which have cut investment back sharply at times, particularly in the public sector, and exerted a disturbing or discouraging influence more widely.

14. Many observers also doubt whether the United Kingdom has made the best use of so much investment as it has achieved, and in particular whether its direction has been sufficiently guided by considerations of cost and efficiency. Mistakes there always must be in forward planning, but what has been sensed in the United Kingdom's plans is the lack of that pressure from a competitive market which directs investment first and foremost towards lowering costs by raising productivity. Much of the trouble, it is felt, is that management has been living in a " cost-plus " world.

15. The second disquieting consideration is the weakness of the balance of payments. There is the problem first of selling enough goods and services overseas to pay for imports. But the United Kingdom does not only have to pay for its imports. Because it also sends out more long-term investment than

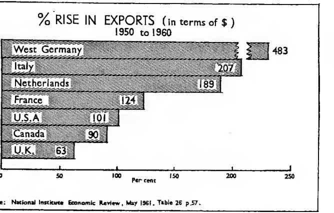
Fig. 4



it itself receives, it must obtain foreign currencies to make up the difference. This it can only do by selling additional goods and services abroad. In the last two years it has failed to do so. Fig. 4 shows that in 1959 it did obtain a small surplus on current account, but not nearly enough to finance the balance of overseas investment; in 1960 the current account itself ran into deficit. We have already noticed that this deficit amounted to as much as a third of the United Kingdom's whole reserve of foreign currencies.

16. Fig. 4 also shows that between 1958 and 1960 imports[1] rose by over £1,000m., but exports[1] by less than £400m. Part of the rise of imports was due to the building up of stocks at a higher rate than is likely to last, but much was of a kind that should continue as trade barriers are reduced and standards of living in the United Kingdom continue to rise. That will be all to the good if exports rise at the same time. What is disturbing now is their failure to rise. It was a great achievement that by 1950 the United Kingdom

Fig. 5




had raised the volume of its exports to three-quarters above pre-war, even though this was still only as much as it had been sending out in 1913, in the heyday of its exports of textiles and coal. But in the ten years since 1950, while national output has risen by nearly 30 per cent, the volume of exports has risen by little more than 20 per cent. Fig. 5 shows that the exports of some other industrial countries have grown much more meanwhile.

17. Why is this? A vigorous discussion has ranged recently over many possible factors—the proportion of output exported by big firms and small, the role of the merchant, the adequacy of export credits, the keeping of delivery dates, the quality of designs and their adaptation to the tastes of the customer, the vigour of salesmanship. In particular cases one or more of these factors may be preponderant. There are two others to which we attach

[1]Taking visible and invisible items together.

particular importance because the pressures they have exerted against exports have been sustained and pervasive. One is the ease of selling in the home market—an ease sheltered by high tariffs. How high these tariffs are is not generally appreciated within the United Kingdom itself, perhaps because the tradition that it is a free trade country has persisted through the thirty years in which it has ceased to be so; or because the extent of tariff reductions in other countries has not yet been realised. Admittedly tariffs are not the only screens from international competition—quantitative restrictions may be even more protective. But it is still noteworthy that, on an international survey, the United Kingdom now ranks among the high tariff countries. This is illustrated by Fig. 6. So firms relieved of effective foreign competition in the home market have not had to look overseas to find enough buyers, but have given priority to satisfying customers in the home market who were ready buyers at prices that yielded a comfortable profit. But those that have been trying to sell more abroad have been impeded by a second factor, namely the progressive rise of their costs. Firms themselves limited by the prices at which they can sell in export markets have had their labour drawn away by others who could cover the higher earnings they offered by higher prices in the home market. In other countries costs have been rising less or not at all. This rise in relative costs helps also to explain why "in recent years a steadily increasing proportion of the import bill has been made up by goods which compete more or less directly with the output of British manufacturing industry"[1]—why, for instance, exports of footwear and motor-cycles, clothing and cameras, were smaller last year than imports.

18. The third disquieting consideration is the persistence of the forces making for higher costs and prices. It is true that in the first quarter of 1961 the Index of Retail Prices was only 4 per cent higher than three years before, but there is reason to believe that the slowing down has been no more than temporary and fortuitous. This appears when one examines the factors that have affected the recent behaviour of retail prices. Fig. 7 shows that the price of food, despite some fluctuations, has risen little on balance since the beginning of 1958, but non-food prices (and these make up nearly two-thirds of the whole) rose by about 5 per cent. The stability in the price of food over the period reflects two influences; a decline in certain world commodity prices (sugar, cocoa, coffee), and also in the price of potatoes; and stable or declining prices for many manufactured foodstuffs. Some of the non-food prices have risen sharply. Between the first quarter of 1958 and the first quarter of 1961 transport rose by 7 per cent, services and fuel and light each by 9 per cent, and housing by 14 per cent. On the other hand durable household goods fell by about 2 per cent, and alcoholic drink by 7 per cent after a change in the excise duty. In sum, a rise in the prices of transport, services, fuel and light and housing has been offset by a fall in the prices of imported foodstuffs and of some manufactures, while other manufactures have remained stable.

19. One reason for the behaviour of the prices of manufactures is that the prices of basic materials imported declined by 20 per cent between early 1957 and early 1959, and have not so far shown any marked recovery; and the

[1]National Institute Economic Review, May 1961, p.36.

Fig. 6

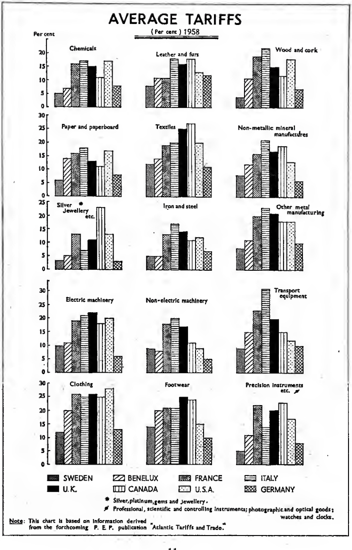
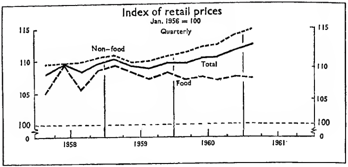

AVERAGE TARIFFS
(Per cent) 1958
Per cent
Chemicals
Leather and furs
Wood and cork
Paper and paperboard
Textiles
Non-metallic mineral manufactures
Silver * Jewellery etc.
Iron and steel
Other metal manufacturing
Electric machinery
Non-electric machinery
Transport equipment
Clothing
Footwear
Precision instruments etc. ≠
SWEDEN
BENELUX
FRANCE
ITALY
U.K.
CANADA
U.S.A.
GERMANY
* Silver, platinum, gems and jewellery.
≠ Professional, scientific and controlling instruments; photographic and optical goods; watches and clocks.
Note: This chart is based on information derived from the forthcoming P. E. P. publication "Atlantic Tariffs and Trade."

Fig. 7




prices of imported fuels are now 30 per cent lower than in early 1957. These declines were chiefly the result of the 1957-58 world recession, though fuels were also falling from the peak reached during the Suez crisis. These declines did not lead to a greater fall in the prices of manufactures for two reasons. First, the sharp rise in the price of fuel and some raw materials at the time of Suez was expected to be temporary, and was not fully passed on in higher prices of manufactured goods at the time. Secondly, only about one-fifth of the wholesale price of manufactured goods is accounted for by imported materials.

20. The cost of manufactures is also affected by the movements of wages and salaries. These have been substantial—between October, 1957, and October, 1960, hourly earnings of men in manufacturing rose by about 17 per cent. But against this there was a large rise in productivity in manufacturing between the first half of 1958 and the first half of 1960—of the order of 12 per cent.

21. This increase in productivity was partly due to the long term factors operating in any advanced economy, such as the continual improvement in techniques and more investment in plant and machinery. But much of it—perhaps rather more than a half—has been realised by the economy moving, between mid-1958 and mid-1960, from a relatively low to a high degree of utilization of capacity. Expansion proceeded rapidly throughout 1959 and the first half of 1960; by the middle of 1960 industrial production was running about 14 per cent higher than two years before. In the whole economy, output per head rose by about 8 per cent between the second quarter of 1958 and the second quarter of 1960.

22. There seems little doubt that the restrictive measures imposed by the Government in 1957 and the world recession of 1957-58 reduced the rate of rise in money incomes. But the fact remains that by the beginning of 1961 both pay and profits had risen by about 15 per cent since mid-1958—an annual rate of about 6 per cent. Over the past decade the total output of the economy has been rising by less than 3 per cent a year on average. Even

allowing for a faster rate of growth in the future it is clear that if pay and profits continue to rise by 6 per cent a year prices are bound to rise as well.

23. In fact the continued rise of pay and profits at a time when industrial production did not rise for about a year has begun to raise prices. By April, 1961, the Retail Price Index was 3 points higher than a year before, and it has risen since.

24. Thus the factors which caused prices to be fairly stable from about the beginning of 1958 are no longer at work. Import prices are unlikely to fall substantially in the near future. Taking up slack no longer offers a quick way of raising productivity. The normal post-war trend of the economy has been re-established; money incomes have been rising faster than production and prices are bound to rise in consequence.

CHAPTER III

# RESTATEMENT OF THE PROBLEM AS A COMMON RESPONSIBILITY

25. We in the United Kingdom are confronted with an obstinate disorder—the persistent tendency of our production to rise more slowly than our pay and profits. In the past twelve years we have increased our production by about a third. The advance in our standard of living that this has made possible could have come to us in the form of a rise of about a third in our money incomes, with prices stable. But in fact pay and profits have both more than doubled meanwhile, so that prices have been bound to go up—retail prices are now more than half as high again as only twelve years ago. The amount of goods and services available to us has been rising, taking one year with another, at the rate of about 6d. in the £ each year; but year by year we have helped ourselves to more money income at the rate of 1s. 4d. in the £; and prices have had to rise to take up the excess 10d.

26. What has been the effect of the 10d.? Has it done any harm? In fact it has. It has hurt all those whose money incomes have not risen as prices have, and has eaten into savings, particularly small savings. It has made it difficult to raise funds for the development of the nationalised industries and social services, because the interest on such loans looks like being worth less and less as prices go on rising, while the capital sum itself diminishes in value. Above all, it has brought recurrent trouble with the balance of payments, and Governments have had to impose restraints on demand, which unfortunately for a time have checked production.

27. There is no benefit to set off against these evils. It has been argued that when money incomes outrun production, the consequent excess demand does at any rate keep production growing faster—that only when demand outruns production will the stimulus to increase productivity be at its strongest. Or again it has been held that a high rate of investment, however it comes about, is likely to set up some excess demand, which must be accepted as the price of growth. But the test of experience is against the view that inflation helps growth in the long run. Comparison of the rates of growth in a number of countries and over various periods does not show that a higher rate of growth has always or even usually been accompanied by a bigger rise of prices—just as often prices have risen less, or even fallen.

28. There are in fact various ways in which inflation works against growth. It hinders the more efficient firms expanding at the expense of the less efficient, for where there is little difficulty in covering higher costs by higher prices an offer of more pay by the more efficient firms will only result in others doing the same. The pressure of trade unions for higher pay no longer obliges management to keep costs down by raising efficiency. So far as the

rate of investment depends mainly on current demand, this is apt in practice to impart a lurch and sway, such as is seen in the building up and running down of stocks. For us in the United Kingdom there is this further hindrance, that excess demand brings recurrent troubles with the balance of payments. If we could have avoided these alone, we should have been able to advance our standard of living more steadily. If we had not grasped at the illusory 10d., the genuine gain would have been more than 6d.

29. But no one has willed the outcome. Moreover, it is something new. That particular groups and people should take any opportunity of raising their own money incomes is to be expected, but until recent years they never found themselves able to do it so persistently. What has made the difference? How has the rise of money incomes been kept going at the rate of 6 per cent or more a year? The experts who have tried to answer these questions were at one time divided into two schools: one laid stress on the pull of demand drawing pay and prices up wherever the flow of current or potential expenditure was rising above present supplies; the other stressed the upward push of negotiated rises in rates of pay, initiating rises in cost. More recently the experts have found more common ground. There is now a wide measure of agreement that both " demand pull " and " cost push " have been active, that they have reinforced one another, and that policy has to tackle both.

30. The pull of demand has made itself felt both directly and indirectly. Directly, it has been seen especially in the competition between employers who find ways of paying more in order to attract and retain particular scarce kinds of labour. Indirectly, it has worked through the frame of mind that has come to rely on covering higher costs sooner or later by higher prices without loss of sales. In such a frame of mind, keeping deliveries up is more important than keeping costs down; in negotiations about pay, the rise that will bring a settlement does not seriously threaten profits, but a strike does.

31. From time to time there have been changes in the rate of rise of demand, accompanied by changes in the outlook and climate of the time. When the rise of demand has been checked, that of wage-rates and salaries has been slowed down too. But the evidence suggests that a contraction of demand is not enough to prevent too rapid a rise of money incomes, unless it cuts too deeply into employment to be acceptable. So long as there is excess demand, no attempt to regulate the rise of money incomes at the source is likely to succeed; but the process by which pay and profits have been raised year by year has now acquired a momentum which the adjustment of demand is not by itself sufficient to control.

32. This process works both locally and at the national level. Locally, its mainspring is the upsetting of customary differentials, and the endeavour to re-establish them. Within any one firm, the earnings of piece-workers may rise more than those of time-workers, or those of manual workers more than those of staff. In some trades or districts shortages of particular types of labour result in extra payments beyond the recognised rates, in the form of bonuses, special allowances, contrived overtime and so on. A good many who have been accustomed to consider their own earnings as standing in a settled relation to those that have gone up now smart under a sense of injustice, and their demand for the restoration of the customary differential can only be

satisfied by extending the rise to all. So a rise anywhere tends to mean a rise elsewhere. The later adjustments, moreover, do not always end the story, but may set off new claims. These processes can operate only when demand is felt to be expansive, but they make pay rise more than it would under the pull of demand alone.

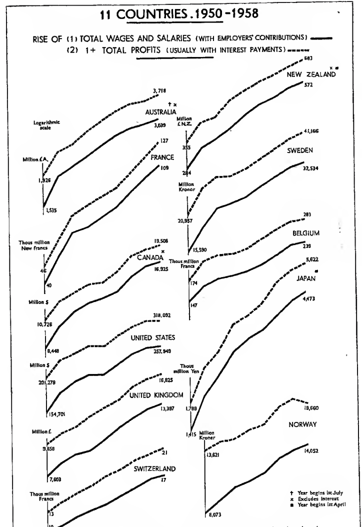
33. There are also chain reactions between industries, at the national level. There are groups of industries in which a settlement in any one is likely to have its speedy repercussions on the others. "League tables" showing the rates for a comparable grade of labour in a number of industries figure in negotiations, and influence employers, who wish to maintain the relative attractiveness of the jobs they offer. The movements of the wages and salaries of large numbers of employees in the public services have now been linked, explicitly or in practice, to the movements of pay elsewhere by the principle laid down in the Report of the Royal Commission on the Civil Service that "the primary principle of civil service pay should be fair comparison with the current remuneration of outside staffs employed on broadly comparable work, taking account of differences in other conditions of service."[1] The habit of settling for much the same rise as other industries had in any case been inculcated by the common influence of cost of living adjustments, and by the standard set when there was compulsory arbitration. The tendency to move forward in line has become a recognised custom as "the annual round." Though much diversity remains, most industries make a settlement within ten to fifteen months of the one before; the settlements in different industries are not spread evenly over time but tend to come together; and their terms at any one time have much in common. The last two rounds have been, in the twelve months from July, 1959, a reduction in the working week, mostly by two hours, without loss of pay; and, from the spring of 1960 till the end of that year, a rise of 8s.—10s. a week. It has always been the case that a firm's resistance to a rise in costs will be less if it knows that the same rise will apply to all its competitors, and now this assurance has been extended more widely.

34. It is an integral part of all these processes that profits have in practice risen as much as pay. It may be that at some times profits rose first and pay only caught up; at others it may be that it was pay that made the initial move, and profits rose only when price rises followed. The record does not show any clear sequence. What it does show clearly is that from one year to another pay and profits have very generally gone up together, and in much the same proportion. In the United Kingdom, for example, the total of wages and salaries paid out by companies was very nearly doubled in only nine years, from 1950 to 1959, but meanwhile those companies' gross profits[2] were likewise very nearly doubled. This constancy of proportions is the general rule: Fig. 8 shows that other western countries have experienced it too. It is highly significant for policy. The profit margin is a basic consideration in firms' decisions about both pay and prices. Rises in pay have not been coming out of profits. When firms find that in practice they can maintain profits despite negotiating pay rises that increase their costs, and that they can

[1] Cmd. 9613, para. 769.

[2] After allowing for stock appreciation.

Fig. 8



11 COUNTRIES. 1950-1958
RISE OF (1) TOTAL WAGES AND SALARIES (WITH EMPLOYERS' CONTRIBUTIONS)
(2) 1+ TOTAL PROFITS (USUALLY WITH INTEREST PAYMENTS)
Logarithmic scale
AUSTRALIA
Million £A.
3,718
3,039
1,926
1,535
FRANCE
Thous million New francs
127
109
46
40
CANADA
Million $
19,508
16,925
10,726
8,448
UNITED STATES
Million $
318,092
257,949
201,278
154,701
UNITED KINGDOM
Million £
16,825
13,397
9,658
7,603
SWITZERLAND
Thous million Francs
21
17
13
10
NEW ZEALAND
Million £N.Z.
683
572
355
284
SWEDEN
Million Kroner
41,166
32,534
20,957
15,590
BELGIUM
Thous million Francs
283
239
174
147
JAPAN
Thous million Yen
5,622
4,473
1,789
1,415
NORWAY
Million Kroner
19,660
14,052
13,621
8,073
† Year begins 1st July
x Excludes interest
■ Year begins 1st April
1950 1951 1952 1953 1954 1955 1956 1957 1958
1950 1951 1952 1953 1954 1955 1956 1957 1958
Source: U.N. Yearbooks of National Accounts Statistics 1957-1960.

maintain sales despite raising their selling prices, the restraints of the market are removed. Policy whose aim is to adjust the rise of money incomes must bear on profits no less than on pay.

35. Such, we believe, are the processes by which the rise in money incomes has been carried on through the last ten years. In one form or another they have been at work in most of the industrial democracies, and no country has yet found any sure and sufficient way of dealing with them. But many countries have been trying to adapt their procedures to the needs of the new time. We in the United Kingdom can learn from their experience, and work out adaptations of our own. The basic fault of the present processes is that they have impeded the rise of production. If we can find ways of improving on them, we can raise our standard of living more quickly.

36. To do this is a common responsibility and a common interest. There is no one section of the community that can be blamed for what has been going wrong. The course of events in a market economy depends on all the decisions that are being taken every day at home and at work, in government and industry, in shops and offices, in boardrooms and at the negotiating table. The disparity between the rises of productivity and money incomes cannot be laid at any one door. But if the responsibility for the trouble is widely diffused, so is the interest in mastering it. There is no section of the community that gains particularly by the present outcome, or stands to lose particularly if it were ended. If all could enter into a tacit agreement to slow down the rate at which they issue themselves with more money, all would be able to buy more.

## Chapter IV

# LINES OF POLICY

37. The choice of policy must begin by recognising the achievements as well as the shortcomings of recent years. We in the United Kingdom have raised our standard of living substantially. We have lifted our exports far above the pre-war level. We have maintained the immense human benefit of full employment. There have been crises, but we have survived them. Yet the example of other countries shows that we can do still better. The aim of policy must be to raise the standard of living more rapidly. That means raising productivity more rapidly, avoiding inflation and the setbacks it causes, and attaining the benefits of stable prices with higher incomes.

38. An exporting country is not entirely master in its own house. The rise of pay and profits in any one country has depended on what has been happening in others. We in the United Kingdom could not have raised the money amount of our own pay and profits by around 6 per cent a year over the last ten years if other countries had not been raising theirs too. There may be changes coming here. The reduction of tariffs within European groupings, the rapid growth of European industry, and the mass production made possible by wider markets, must be expected to keep the prices of manufactures down, so that the United Kingdom will not be able to go on raising the prices of its exports to cover annually rising costs. Moreover, competition is no longer confined to western countries: industrialisation is proceeding in many others which are likely to become strong competitors in the export of manufactures. But few countries depend for their livelihood on international trade so vitally as we do in the United Kingdom. Far more than France or Germany we must export to gain our daily bread. We can hardly raise our standard of living without raising our exports. Higher costs of exports hit us where we are most vulnerable.

39. If these are the tasks of policy, there are three areas on which it must be brought to bear. The first contains all the forces that make for higher productivity, and those that shelter inefficiency or obstruct growth and change. The second contains those that generate the pressure of excess demand. In the third are the procedures through which rates of pay and profit are arrived at—the pricing decisions that fix profit margins, and bargaining on incomes both nationally and locally. In all three areas the aim of policy must be to provide a setting in which the forces making for growth are strengthened, and money incomes do not outrun production.

40. We see policy, then, as directed along three main lines—

*raising productivity;*
*adjusting the rate of demand;*
*adjusting the rise of money incomes—both pay and profits.*

We believe these form a coherent strategy. In the sections that follow we shall indicate possible forms of action. Much of this action falls to be taken by the Government, but it is essential to our conception of the problem that its roots and remedies alike lie in the daily decision-taking that goes on throughout the economy. One essential for right decisions is that those taking them be adequately informed, and because the use of information enters into so much that we have to suggest, we shall set out our findings on the information now available and the possibility of improving it, before returning to the main lines of policy in para. 44.

## INFORMATION FOR RESPONSIBLE DECISION-TAKING

41. We found wide agreement that the economic statistics now available in this country are very comprehensive, and are substantially better than five years ago. It was also generally agreed that taking the field as a whole British statistics compare well with those of other countries. Some other countries, in particular the United States, publish certain statistics more frequently and quickly. We know that Government departments are working on improvements, and there are regular meetings between British official statisticians and their opposite numbers in the United States and in European and Commonwealth countries.

42. Our general conclusions are as follows:

(i) The value of statistical information, as a basis for arriving at informed judgments, is not always sufficiently appreciated. Firms do not always believe that the Government makes any good use of the information they are asked to furnish; and many of them do not think of published economic information as something for their own use. This is in contrast with the United States, where firms are more ready to supply information to the Government and, equally, are more insistent that the Government publishes information speedily and in a form useful to them. In the United States a great deal of information is also collected and published by industry on its own account; there is much less of this in this country and some industries provide the Government with information only on condition that it is not published. We believe there is also more personal contact in the United States between business and the collectors of information. There is evidence that the climate here is changing, an outstanding instance being the four-monthly enquiries into industrial trends conducted by the Federation of British Industries.

(ii) There is often a conflict between the need for speed and the need for accuracy. In many cases firms are slow to complete a return because they are not convinced of its usefulness, or because they are not organized in a way that permits them to provide it easily. But in many cases statistics can be provided more quickly only at some sacrifice of accuracy. This may not detract from their usefulness as qualitative indicators for particular purposes. There is room, in addition to the comprehensive and accurate statistics now produced, for indicators, some of which might be based on samples, produced at top speed and published with a warning that they have corresponding

limitations. They should not be regarded as attempts to anticipate the movement of the comprehensive series, but should be regarded as standing in their own right as distinctive series for a distinctive purpose.

(iii) Consideration might be given to the best way of ensuring the systematic and periodical review of the whole field of statistics, by consultation between those who supply, those who collect and those who use them, so that full advantage is taken of the available material and that those who have the often onerous task of making the returns are satisfied of their usefulness.

(iv) In considering the use now being made of economic information we have been encouraged to find how the discussion in the Press of the position of the economy in all its aspects, over and above the day to day movements of markets, increasingly interests the reading public.

43. There are also three sets of figures which we think might be improved:

(i) *Earnings*

Every six months the Ministry of Labour collects figures of the average weekly earnings of manual workers in industry. These figures are published, in considerable detail, three or four months after the week to which they refer. We believe that earnings are so significant as indicators of trends in the economy that an effort should be made to produce some indication of their movement more quickly and more often. It may not be feasible to produce every month or every quarter the full range of information that is collected now. As an indicator it might be sufficient to have the average earnings of broad groups, which would form a series distinct from the existing six-monthly series and could be obtained and published quickly from a relatively small sample.

(ii) *Orders*

More information needs to be published about new orders and orders on hand. We understand that the Board of Trade has in fact substantially extended its information about orders over the past year or two, with the intention of publishing as much as possible as soon as it is satisfied that the material is useful and comprehensive.

(iii) *Stocks*

Changes in the rate of stock-building have been a major cause of the fluctuations of industrial economies since the war. Information about changes in stocks is therefore particularly significant, and we attach much importance to its being improved. We believe that this might often be done by way of samples. The kind of questions asked in the four-monthly enquiry into industrial trends conducted by the Federation of British Industries is a good guide to the possibilities here, and we hope that trade associations will develop similar enquiries.

## RAISING PRODUCTIVITY

44. Productivity, or output per head, is raised by increasing the skill of manpower and management, and by applying improved techniques through the right kind of investment. At the present time it is natural to consider manpower first. The shortages of skilled workers call attention to the lack of estimates of the prospective course of demand for particular kinds of

labour. Such estimates would be possible only if employers of labour in units of more than a certain size were called upon to report their foreseeable requirements over, say, the next three years: when put together their reports would provide a projection of requirements in the national aggregate or for certain sectors. We believe that such projections would throw up the probability of particular shortages, and very likely of some redundancies too. Many estimates would prove wide of the mark, especially at first, but a poor estimate is seldom so misleading as no estimate at all. The projections would guide the development of technical training and give it an increased sense of purpose. They might also reveal need for retraining and resettlement programmes, and be a more solid basis for the discussion of apprenticeship schemes and quotas.

45. Higher output per man means fewer men per unit of output, and workers have reason to fear that what is an advantage for the firm and the community only means unemployment for them. If they are not to resist improvements as a threat to their livelihood, they need an assurance that none of them personally will be left worse off by a change that raises productivity because it is labour-saving. In many cases a specific assurance of this kind is possible. More generally, provision can be made to keep redundancy down and to compensate so much as may be unavoidable. We wish to call attention to what the Ministry of Labour's pamphlet on *Positive Employment Policies* has to say about this:

> " Confidence that it is the policy of management to maintain a stable labour force is a most important factor in creating good industrial relations within a company and in stimulating high productivity and the ready acceptance of new methods. Companies have found that advance budgeting for manpower requirements as well as for production and sales can significantly decrease fluctuations in the number of employees they need. This, coupled with consultation in advance of major changes, has been found valuable in reducing the fear of redundancy and the general feeling of insecurity which can do so much to poison the industrial atmosphere."

46. The effectiveness of all manpower, and the willingness with which men and women work, depends on the skill of management. What is essential is not merely that managers should be energetic and enterprising, but that they should have the particular " know-how " that managing calls for. We believe that increased attention to training in the specific skills appropriate to supervision and management in all their grades will exert a deep and pervasive influence on productivity.

47. When we turn to investment, we would stress first that effective investment needs to be programmed. This carries at once an implication for public policy. There is little point in a programme that is subject to interruption, but hitherto it is investment that has had to bear the greater part of the cutting back when restraints are imposed. Some cuts, it is true, fall on consumption, notably through hire purchase restrictions; but higher interest rates, the restriction of bank advances, and the paring of plans in the public sector, fall mainly on investment. Nor is this compensated when public policy goes over to expansion, for though the restraints can be lifted they can hardly be put

into reverse, and injections into the flow of spending can be made most effectively through the Budget, which raises investment less readily than consumption. But it is useless to enunciate the principle that investment programmes should be left undisturbed unless ways can be found of promptly checking expenditure on consumption. The new proposal that would enable the rate of indirect taxation to be varied during the interval between Budgets therefore marks a notable advance.

48. The need for working out investment programmes prompts a further suggestion. When any one firm or industry draws up such a programme, as many do now, it has to assume a certain rate of growth in the rest of the economy; but this depends in its turn on the investment being undertaken there—the actual rate of growth in each sector depends on the expected rate of the others. We have already referred to the possibility that a consensus may establish itself in this way, through which a low or equally a high rate may impose and justify itself. The present need for the United Kingdom is to form a consensus about a higher rate. This might be done if the programme from the main sectors were collected and collated in a national projection of investment intentions. Through the discussion of this it would be possible to assure those concerned both that they were not heading towards overlapping and excess capacity in their own sector, and that they were keeping in step with other sectors; and if in the aggregate the programme seemed too small, those who drew up particular programmes could be invited to expand them in the knowledge that they would not be moving forward alone. Some of these functions are performed for one industry within the United Kingdom by the Iron and Steel Board. In France, they have been undertaken for the whole economy by the Commissariat du Plan. It has been claimed for the French procedure that the exchange of information has made better forecasting possible; that the collation of programmes has made it possible to avoid both unemployment and surplus capacity that would otherwise have arisen at particular points; and that the interchange of ideas has changed attitudes and imparted a stimulus to growth. We think that the United Kingdom has something to learn from this experiment.

49. It is frequently suggested that one way of increasing the effective quantity of equipment is to have a more widespread use of shift working. This raises important social as well as economic issues and any extension of the system can only be made by joint agreement. We need only point out that if in the United Kingdom more use could be made of the double day shift a greater volume of output could be obtained from a given amount of capital equipment whether plant or buildings. The objection, which is sometimes made, that under full employment labour for a second shift is not available, is only valid if it is assumed that the more efficient firms cannot attract labour from the less efficient.

50. It is the investment that makes better use of a given labour force that is particularly needed. The direct stimulus to it is that it is cost-reducing: what the new equipment adds to costs is less than the pay for the man-hours it displaces. We have already noted how the cost of equipment in terms of man-hours is generally much lower in the United States than it is here. The suggestion has been made that it could be lowered here simply by

raising the cost of labour to the employer through a pay-roll tax. But this would raise the cost of labour that makes equipment, so that the cost of equipment would also go up. What is needed is a lowering of the cost of equipment in terms of labour by greater efficiency in its manufacture. Consideration of the United States suggests that this is to be reached in two ways. First, more equipment must be available per worker in the making of equipment itself. Second, the equipment-making industries must gain more of the economies of large-scale production. These seem to be realised not by firms being bigger but by their specialising more, and having longer runs of a given product. It is noteworthy that the Common Market is now providing for its members a market whose size will approach that within the United States.

51. Investment policy must be linked with the adjustment of demand and money incomes. So long as excess demand is widespread, the market test of efficiency is suspended. Adjustment of the rise of spending is essential if investment is to flow towards the firms that are most efficient.

## ADJUSTING THE RISE OF DEMAND

52. We have already emphasised that it is essential to avoid excess demand. It not only pulls up prices, profits and pay at particular points where it impinges most strongly, but encourages the attitudes that allow costs and prices to be pushed up from below. The experience of some European countries that have done more than the United Kingdom to adjust the rate of rise of money incomes in central negotiations shows that, if excess demand is present, earnings are not held to the negotiated rates.

53. But avoiding excess demand means sometimes keeping back the flow of spending, and this has been associated with a set-back to production. We have argued that this does not mean that excess demand is a stimulus to growth; on the contrary it is a hindrance because it lowers the pressure towards greater efficiency. Yet hitherto the United Kingdom has chiefly depended on a rise of the flow of spending for stimulation of its growth. So long as that is so, restraints on spending will always disappoint the expectations on which growth depends. But it would be quite otherwise if growth were being carried forward in a programme of investment directed not to higher sales merely but to higher productivity, and expected to be maintained despite fluctuations in consumption. The adjustment of the rise of demand as we envisage it is therefore essentially linked with the measures we have suggested to raise productivity.

54. It is also linked with the adjustment of the rise of money incomes, because today that rise has a capacity for self-propulsion which restraint of demand by itself seems unlikely to hold back without creating heavy unemployment. We have already discussed the reasons for this. The willingness of firms to raise rates of pay depends not on their own current or even prospective sales alone, but on their sense of the movement that is going on all around them. Many selling prices are not adjusted according to the pressure of buying orders on the available supplies day by day, but are fixed by administrative decisions, and when costs rise all round such prices readily follow a leader, or move up together although there has been no agreement that they should. Movements of these kinds require an increased monetary

turnover, but this can in practice be obtained despite monetary restraints. We therefore believe that measures to adjust the rise of demand need to be supplemented by policy that bears more directly on decisions about rates of pay and profit.

55. But measures to adjust the rise of demand remain indispensable. They consist mainly of changes in the budget surplus or deficit, the rate of interest, and the ease of credit. These fiscal and monetary controls are familiar, and we wish here only to lay renewed stress on two points already touched upon. One is the desirability of avoiding controls that upset investment programmes. This means in practice that more use must be made of fiscal measures, less of monetary. The other point is the great usefulness of the provision now being made for varying the rate of taxation between Budgets. The usefulness is twofold—no longer will it be impossible (short of an emergency Budget) to use any but monetary controls between April and April; and the more promptly changes in taxes can be made, the smaller they can be to do their job, and the less the risk of an alternation between hard and soft Budgets. There are drawbacks to both the particular instruments now proposed. A payroll tax raises costs, and is liable to have the same effects as a round of wage rises, unless the employer's attitude towards it is different. Raising customs and excise duties and purchase tax raises the cost of living. Both effects give the economy a push in just the opposite direction to the one needed at the time. It would be exceedingly useful to find instead a means of varying the rate of collection of direct taxes. Evidently there are administrative difficulties, but no less evidently there would be great gains in overcoming them.

## ADJUSTING THE RISE OF MONEY INCOMES

56. A money income policy must deal with both profits and pay. Common to the treatment of both is the difficulty of adjusting the movement of the aggregate while leaving the parts free to vary relatively to one another. These variations are important because they help to guide productive resources towards the points where they will do most to meet demand and will be used most efficiently. It follows that no one rate of profit can be fixed upon as adequate to fulfil the functions of profits in all circumstances, and public policy cannot simply aim at preventing or recapturing profits in excess of a norm. What a general policy can do is rather to provide as far as possible that profits can be made only in fields that are open to buyers and sellers generally and not sheltered or restricted; that costs have to stand the test of competition; and that profitability is the mark only of efficiency in meeting demand.

57. There are two ways in which such a policy can be brought to bear. One is to take action against agreements for price maintenance. This is now being done in the United Kingdom, and we wish only to stress the importance of the existing legislation and procedure as part of the strategy for keeping full employment without inflation. The other way is to reduce import duties. We have pointed out that the United Kingdom now ranks among the high tariff countries, and that many firms are able to maintain their profit margins simply by raising prices in the home market.

58. There is a growing opinion in favour of a reduction of duties on imports. This may seem untimely when the balance of payments is giving trouble. But it is agreed that the best remedy is not to keep imports down but to get exports up. A sheltered home market works against this. On the one hand exporters have lost much of the preferences, formal or informal, that they used to enjoy in sterling markets overseas. On the other hand, the home market has been easy to sell in and has offered little resistance to rises in costs. To remove this bias means making profits less easy to come by and prices less easy to raise in the home market. Commercial policy raises many issues of social as well as economic consequence, but the consideration we would emphasise here is that the effect of greater competition from overseas in the long run will be not to weaken the balance of payments but to strengthen it.

59. In the recent discussion of inflation so much importance has been attached to the role of administered prices and of "cost-plus" pricing generally, that much thought has been given to the possibility of price control. It has been suggested, for instance, that price controls of the kind familiar in war-time should be revived. We recognise the attraction of an instrument that would act directly upon an essential link in the mechanism of inflation, but we have been forced to the conclusion that it is wholly precluded in practice by the administrative complexities of allowing for changes in the type of product and distinguishing between admissible and inadmissible rises in costs. Alternatively it has been suggested that the present obligation of the nationalised industries, to "ascertain in advance the views of the appropriate Ministers when they prepare to make substantial changes in the level of their prices"[1] should be extended to other leading producers. In the United States the proposal has been canvassed that the government should set up an agency to keep price movements of all kinds under review: it could report to the government any that seemed to call for an ad hoc enquiry, or might itself investigate such as the government referred to it. It would have only the powers needed to conduct an inquiry, and its duty would be only to draw up a fact-finding report, but the hope would be that the liability to subsequent investigation would bring the public interest more actively into the reckoning of those taking decisions affecting costs, profits, and prices.

60. One suggestion we ourselves commend for present consideration is that the changes entering into the Index of Retail Prices should be made the subject of more detailed study and report, it might be in the first instance to the National Joint Advisory Council. The object would be to increase understanding of what is going on in the economy.

61. The effectiveness of any action on prices depends greatly on the expectations prevailing when pricing decisions are taken. The greatest bar to raising a price and the greatest inducement to lower it is the expectation that the lower the price is the more will be sold. The attitude towards raising prices would be quite different from what it has been recently if costs were not expected to go on rising, if markets were more competitive, and if the economy was growing and was felt to be so.

[1]Cmnd. 1337, April 1961, para. 31.

62. In considering policy towards the rise of wages and salaries we have been impressed by the extent to which the prevailing machinery for adjusting them owes its form to the needs of times very different from those of today. Collective bargaining used to be regarded as a tussle for shares in a given product; but in recent years when pay has gone up, profits have gone up too. Real earnings have risen to the extent that production has risen; in so far as money earnings have gone up more than this, they have not brought the employee a bigger share of the product, but have only brought about higher prices. Each industry came to set store by the autonomy of its negotiations, because its ability to pay was set by its own particular market; but now the rise in each is often linked with the rise in all. When industries did move one at a time, a rise in any one of them meant what it said, because it would itself take next to no effect on the cost of living; but now what the shillings and pence of a wage round will buy is cut down by the rise in prices they themselves bring about. No term was set to agreements, and they would often go unchanged for years at a time; but lately there has been a rise very nearly every year. The rates specified in the agreement were commonly those actually paid, but now they are often below actual earnings, sometimes far below, and the difference is the result of arrangements transacted locally. In a word, full employment has transformed the working of collective bargaining, but not its structure and procedure.

63. From the standpoint of the need to adjust the rise of money incomes to that of productivity, there are two areas on which we would focus attention, because it is in them that the traditional ways have in some cases lost control of present movements. One is the uneven rise of particular earnings and the distortion of the pay structure at the place of work. The other is the linking of settlements at the national level in an "annual round."

64. There can be no general prescriptions, for the circumstances of different industries are various, and improvements in a system that is basically voluntary must in any case be worked out together by those immediately concerned. But there can also be no doubt of the need for improvements, and the times challenge employers and trade unions to think out what can be done.

65. In the first area, we would call attention to two lines of development which have been suggested. One is to recognise the extent to which earnings are actually being fixed locally, and the greater bargaining power on the floor of the shop that goes with this, and make constructive use of them so as to provide a more orderly wage structure. More information is needed about the nature and extent of local settlements. The other line is to increase the coverage and authority of national agreements. The two lines do not necessarily diverge: local agreements may be made on principles agreed nationally, and national agreements may be strengthened by greater liaison between the centre and the localities. It has also been suggested that some national agreements would be strengthened by a revision of the boundaries of the "industries" now nominally regulated by a single negotiation, for example in engineering, so as to get more homogeneous and manageable bargaining units.

66. The second area is that of the general rise of money incomes, both pay and profits, year by year. It is right that there should be such a rise so long

as productivity is rising too, for higher money incomes are a way of distributing the gains of higher productivity. They are not the only way—what people can buy will also be raised if money incomes are unchanged while prices fall; but the aim of stable prices with rising money incomes is more within reach. The need, then, is not to stop the rise, but to see that it does not exceed the rise in productivity.

67. One suggestion is to have a projection, for a period ahead, of the extent to which productivity in the national aggregate may be expected to advance. This projection would cover the production of goods and services of all kinds by the whole working population, and not the industrial sector alone. Such a projection could be related to a planned investment programme, and to forward assessments of manpower needs and resources. It could be an indicator of the anticipated pace of growth of the whole economy, and would be a guide for those responsible in their own particular fields for the planning of production, the fixing of prices and profit margins, and the settlement of wages and salaries.

68. For this suggestion to be effective two difficulties have to be overcome. One is the manner of compiling the projection; the other is its acceptance by those who are to be guided by its results. The compilation is a technical task which would have to be undertaken largely by experts with close knowledge of trends in the economy. It is however essential that the facts on which the compilation is based should be free from question, and this means that there should be open discussion at all stages of the process. Then, if the results are such as to carry conviction, there is the further task of persuading those in responsible positions to accept them as a guide, not only in the interests of those whom they represent but also of the community as a whole. This calls for a high degree of leadership, both on the part of Government and of both sides of industry. It may be possible to use existing machinery of consultation, at least for the discussion of this suggestion, but if necessary separate and independent procedures could be established for the purpose of compiling the projection, so as to ensure that the results were accepted as independent and objective. The projection would indicate the limits within which movements of pay and profits must lie if they are to be consistent with stable prices. It would not be prescribed as an absolute limit but its object would be rather to make clear—what is not clear now—the line beyond which particular decisions or settlements cannot go without the risk of being inflationary or else gaining at the expense of others. In the settlement of wage claims particular industries would remain free to go beyond the limit, and some might do so with good reason, but what their decisions meant for others would be made apparent. It would have to be understood that if pay and profits did rise more than productivity the Government would take steps promptly to check spending.

69. The primary responsibility for policy and action must rest with Government. We have indicated in this Chapter the three lines along which we ourselves believe progress towards economic growth with price stability can be made. We have found no device, at home or abroad, that would provide an automatic, impersonal adjustment; the proposals that would help most all depend in some measure on people's willingness to work with them, and

there is none known to us that would be at once acceptable to all the parties concerned. Yet such opposition does not stem from real self-interest. The sources of opposition are, rather, a strong attachment to principles learned the hard way in a world very different from the one we live in; failure to realise what we should gain if we were able to avoid inflation; and the fear that self-discipline will only leave the way open to others. At the heart of the problem of inflation under full employment is a frame of mind.

We wish to place on record our appreciation of the work of our Secretary, Mr. M. J. Stewart, throughout our review and in the preparation of this Report.

HEYWORTH (*Chairman*)
HAROLD EMMERSON
HENRY PHELPS BROWN

M. J. STEWART (*Secretary*)
July 13th, 1961.

APPENDIX

## LIST OF ORGANISATIONS AND INDIVIDUALS REFERRED TO IN PARAS. 3 AND 4

H.M. Treasury
Ministry of Labour
Board of Trade
Central Statistical Office
Bank of England
British Employers' Confederation
British Transport Commission
British European Airways
Cambridge University Department of Applied Economics
Central Electricity Generating Board
Committee of London Clearing Bankers
Electricity Council
Federation of British Industries
Gas Council
Institute of Statisticians
Iron and Steel Board
National Coal Board
National Institute of Economic and Social Research
National Union of Manufacturers
Royal Statistical Society
Social Credit Co-ordinating Centre

Professor G. C. Allen
Mr. P. W. S. Andrews
Mr. R. J. Ball
Mr. T. Balogh
Mr. R. Brech
Mr. H. Briggs
Mr. S. Brittan
Professor A. J. Brown
Mrs. Meyrick Browne
Sir Sidney Caine
Professor A. K. Cairncross
Professor C. F. Carter
Mr. S. P. Chambers
Mr. D. N. Chester
Mr. W. M. Clarke
Mr. Hugh Clegg
Mr. John Cole
Mr. R. Collin
Mr. A. C. L. Day
Mr. Paul Derrick
Professor Ely Devons
Mr. J. C. R. Dow
Mr. Allan Flanders
Mr. R. H. Fry
Mr. G. Goodman
Mrs. M. F. W. Hemming
Professor J. R. Hicks
Mr. A. E. Holmans
Professor E. M. Hugh Jones
Professor F. E. Hyde
Mr. E. F. Jackson
Professor J. Johnston
Mr. T. L. Johnston
Professor R. F. Kahn
Mr. R. Kitzinger
Mr. J. F. Knight
Mr. K. G. J. C. Knowles
Mr. R. G. Lipsey
Mr. I. M. D. Little
Sir Donald MacDougall
Professor J. E. Meade
Mr. G. Newton
Professor F. W. Paish
Mr. J. R. Parkinson
Professor A. W. Phillips
Mr. W. A. B. Reddaway
Mr. B. C. Roberts
Professor D. J. Robertson
Professor E. A. G. Robinson
Mr. H. B. Rose
Mr. C. R. Ross
Mr. C. T. Saunders
Miss Nancy Seear
Professor G. L. S. Shackle
Mr. A. Shonfield
Mr. A. R. Smith
Mr. R. V. Stevens
Mr. I. Stewart
Professor J. R. Stone
Miss B. M. Swift
Mr. M. J. Thomas
Mr. H. Tout
Professor H. A. F. Turner
Mr. D. Tyerman
Mr. E. L. Wigham
Professor Lady Williams
Professor B. R. Williams
Professor T. Wilson
Mr. G. D. N. Worswick

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